

Message Text

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42

ACTION AID-59

INFO OCT-01 ADP-00 EB-05 EA-07 IGA-02 /074 W

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TO SECSTATE WASHDC PRIORITY 0000

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AIDAC

E.O. 11652: N/A

SUBJECT: JAGORAWI HIGHWAY; LOAN 031

REFS: A. JAKARTA 8713 B. STATE 145604 C. JAKARTA 8782

1. MISSION DISCUSSIONS WITH BOTH MKI AND HYUNDAI THIS WEEK
REVEALED FOLLOWING POSITIONS:

A. MKI WOULD AGREE TO NEGOTIATE CONTRACT OR ENTER INTO MANAGEMENT ARRANGEMENT WITH HYUNDAI AS SUBCONTRACTOR. FOLLOWING IS QUOTE OF ENTIRE INTEROFFICE CABLE FROM H. ACKERMAN, MKI, FAR EAST DIVISION MANAGER, TO JAMES MCMILLAN, MKI PROJECT MANAGER, FOR CONSTRUCTION OF CIBINONG CEMENT PLANT PROJECT NOW UNDER CONSTRUCTION. QUOTE AA - CONTEXT OF YOUR MESSAGE AND DISCUSSIONS RELATED THEREIN ARE ENCOURAGING. BB - WITH REGARD TO REDUCTIONS IN OUR ESTIMATE, WE WOULD NEED TO KNOW BEFOREHAND WHAT DEGREE OF COMPACTION AND DENSITY WOULD NOW BE ACCEPTABLE TO THE CLIENT AND WHETHER OR NOT THE MATERIAL ALONG THE RIGHT OF WAY WOULD BE ACCEPTABLE RATHER THAN HAVING TO MAKE LONG HAULS OF MATERIAL LOCATED IN SECTION B AREA. CC - THE ESTIMATES OF MOBILIZATION PILING, CONCRETE AND REINFORCING STEEL ARE MATTERS OF JUDGMENT AS WELL AS PRICE OF MATERIALS. CEMENT PRICES ARE INCREASING EVERYWHERE: SAND AND AGGREGATE PRICES JUST WENT UP LAST WEEK - AS PUBLISHED IN THE JAKARTA TIMES TO RP 1800 PER CUMTR EXCLUDING PROCESSING AND DELIVERY: REINFORCING STEEL IS IMPORTED AND PRICES WILL GET HIGHER BEFORE THE END OF THE YEAR - STEEL HAS GONE UP 35 PERCENT IN SINGAPORE AND WILL GO UP ANOTHER 15 PERCENT

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IN JAPAN PRIOR TO END OF THIS YEAR AND THEY CAN'T EVEN DELIVER

BEFORE END OF THIS YEAR. STEEL IS NOW ABOUT US\$250 PER TON IN SINGAPORE. EMBANKMENT IS HIGH BECAUSE OF STRINGENT SPEC AND NO INDICATION THAT ENGINEER WILL AT LEAST BE REASONABLE. DD - WE ARE WILLING TO DISCUSS OUR UNIT PRICES WITH AID/BINA MARGA/SVP AND IN EFFECT NEGOTIATE WITH THESE PEOPLE IF IT WILL HELP THEM AND US. EE -YOU ARE ABSOLUTELY CORRECT IN POINTING OUT THAT WE CANNOT SUCCESSFULLY MANAGE A JOB ALREADY UNDERPRICED. WE WOULD ONLY AGREE TO UNDERTAKE THE MANAGEMENT OF HYUNDAI ON THE FOLLOWING BASIS: L.O. HYUNDAI WOULD HAVE TO AGREE TO REPORT DIRECTLY TO MKI, ABIDE BY MKI PLANNING, SCHEDULING AND ORGANIZATION REQUIREMENTS AND IN EFFECT FUNCTION AS A SUBCONTRACTOR TO MKI. HYUNDAI WOULD BE PAID THEIR FIXED PRICE, WHICH WOULD BE REVIEWED BY MKI PRIOR TO ACCEPTANCE OF THE MANAGEMENT CONTRACT. MKI WOULD NOT INCUR OR STAND ANY LOSSES AS THE RESULT OF HYUNDAI'S PRICES OR PERFORMANCE.

2.0 MKI WOULD BE PAID A MANAGEMENT FEE BASED ON AN OVERRIDE OF MKI TOTAL DIRECT AND INDIRECT COST, INCLUDING HOME OFFICE SUPPORT ALLOWANCE.

FF - AS AN ALTERNATIVE TO A MANAGEMENT CONTRACT AND PREFERABLY WE WOULD BE WILLING TO UNDERTAKE THE ENTIRE PROJECT ON ANY OF THE FOLLOWING BASES:

1.0 TARGET ESTIMATE WITH MINIMUM FIXED FEE, AND SHARING OF ANY SAVINGS IN COST UP TO A FIXED MAXIMUM FEE.

2.0 COST REIMBURSEABLE WITH FIXED FEE BASED ON ESTIMATED COST.

3.0 COST REIMBURSEABLE WITH FIXED FEE PLUS INCENTIVE AWARD FEE.

GG - AGAIN EXPRESS OUR WILLINGNESS TO COOPERATE AND ASSIST ALL CONCERNED. UNQUOTE.

B. HYUNDAI REPRESENTATIVE K.Y. KIM, OVERSEAS MANAGER, INDICATED THEY COULD READILY SUBMIT FINANCIAL STATEMENT AND PLEDGE OF ASSETS OF PARENT ORGANIZATION (INCLUDING CEMENT PLANT AND OTHER OPERATIONS) TO IMPROVE ITS FINANCIAL RATING IF THIS WOULD QUALIFY THEM FOR BOTH SECTIONS. ORIGINAL SUBMISSION COVERED CONSTRUCTION ORGANIZATION ONLY. KIM ALSO INDICATED TO USAID THAT HYUNDAI CONSIDERS ITS BID REASONABLE IN PRICE AND HYUNDAI WANTS THE CONTRACT FOR BOTH SECTIONS. LIMITED OFFICIAL USE

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THE ABOVE FYI.

DECON 12/31/73
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